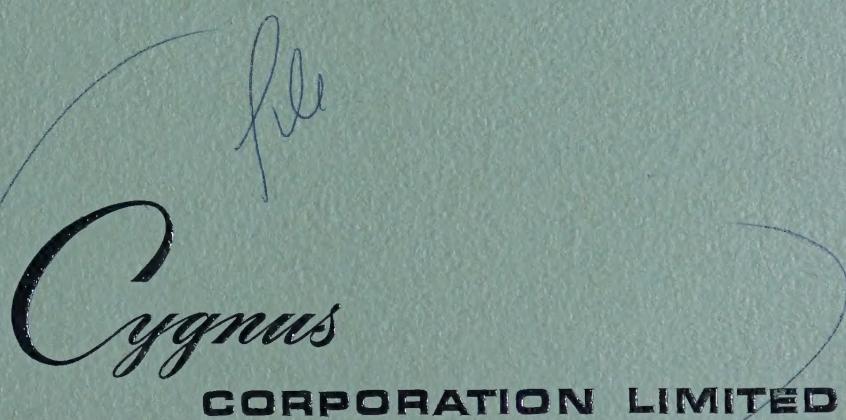


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A N N U A L R E P O R T



Cygnus
CORPORATION LIMITED

1968 ANNUAL REPORT

DIRECTORS

ROBERT A. BROWN, JR.

*President and Managing Director
Home Oil Company Limited*

ROBERT W. CAMPBELL

*Executive Vice-President and General Manager
Home Oil Company Limited*

WILLIAM F. JAMES, Ph.D.

Partner — James, Buffam & Cooper

BENTON MACKID

*Vice-President and Director
Reed Shaw Osler Limited*

HARRY I. PRICE

*Chairman of the Board
Harry Price Insurance Ltd.*

ARTHUR M. SHOULTS

President — James Lovick Limited

J. ROSS TOLMIE, Q.C.

Partner — Herridge, Tolmie, Gray, Coyne & Blair

OFFICERS

R. A. BROWN, JR.	<i>President and Chairman of the Board</i>
R. W. CAMPBELL	<i>Executive Vice-President</i>
W. T. WILKINSON	<i>Vice-President and General Manager</i>
R. B. COLEMAN	<i>Secretary</i>
B. B. ROMBOUGH	<i>Treasurer</i>
F. G. MITCHELL	<i>Assistant Secretary</i>
G. W. BENNETT	<i>Assistant Treasurer</i>

AUDITORS

Riddell, Stead, Graham & Hutchison

SOLICITORS

*Macleod, Dixon, Burns, Love, Leitch, Lomas,
Charters & Montgomery*

BANKERS

Canadian Imperial Bank of Commerce

REGISTRAR AND TRANSFER AGENT

Crown Trust Company

LISTINGS

PREFERRED SHARES

Montreal Stock Exchange — Toronto Stock Exchange

CLASS A AND CLASS B SHARES

Montreal Stock Exchange — Toronto Stock Exchange

Calgary Stock Exchange — Vancouver Stock Exchange

TO THE SHAREHOLDERS

The net income of Cygnus Corporation for 1968 amounted to \$429,825, an increase of \$69,787 or 19% over the amount earned in the previous year. The improvement in earnings was due to our two wholly-owned subsidiaries which produced a combined profit of \$74,216 in 1968 as against losses of \$45,363 sustained in 1967.

The Company's principal asset is its investment in Home Oil Company Limited. This investment was increased during 1968 by the purchase of 20,735 Class B shares of that company. Your Company now owns 1,000,000, or 43%, of the outstanding Class B shares of Home entitled to vote. The market value of this holding as of December 31, 1968 was \$42,625,000.

As indicated in the report to the shareholders of January 14, 1969, considerable significance has been attached to the developments on the North Slope of Alaska during the past six months. Two major oil discoveries were made at Prudhoe Bay by Atlantic Richfield and Humble Oil and indicated recoverable oil reserves have been estimated in the range of 5 to 10 billion barrels. The magnitude of these reserves is further supported by the recent announcement of a proposed 48-inch pipeline to bring the production to the southwest coast of Alaska. Both Home and your Company have made substantial investments in the Atlantic Richfield Company. Your Company acquired 50,000 shares of Atlantic at a cost of \$5,250,000 U.S. or \$105 U.S. per share while Home acquired, through purchase and the recent merger of Atlantic Richfield and Sinclair Oil, 367,936 common shares and 53,440 \$2.80 Redeemable Cumulative Convertible Preference shares of Atlantic, equivalent to a total of 400,000 common shares of Atlantic at a total cost of \$43,476,000 U.S. In addition to the purchase of these shares Home, through land acquisition, has become one of the largest holders of exploratory acreage in Alaska. It plans to conduct an active exploration program on the North Slope and during 1969 will drill Nora Federal #1, a deep test on lands acquired under a farmout arrangement with Atlantic Richfield. The accompanying map shows the location of Home's holdings on the North Slope.

Home Oil reported net earnings of \$2.01 per share in 1968 as compared with net earnings of \$1.02 in 1967. The 1968 earnings consisted of regular earnings of 83¢ and a special gain, resulting from the sale of securities, of \$1.18. Home sold its holdings of convertible preferred shares of Trans-Canada Pipe Lines Limited, its shares of Union Gas Company of Canada Limited and certain other investments at a gain of \$6,343,000. Other activities by Home during 1968 included the acquisition of a large U.S. liquid petroleum gas marketing company in exchange for 101,085 Home Class A shares. This marketing operation has been integrated with Home's other

liquids marketing and storage facilities. Late in 1968, Home called for redemption its outstanding 5½ % Convertible Subordinated Debentures and as a result, 1,005,605 Class A shares were issued on the conversion of these debentures. In addition to this increase in Home's equity base, a further 900,000 Class A shares were sold in the United States in February, 1969 for approximately \$39,000,000.

Thio-Pet Chemicals Ltd., one of our wholly-owned subsidiaries, recorded a net profit of \$63,395 for the year as against a loss of \$17,670 in 1967. The plant expansion of 1967-68 helped our unit production costs and with the increased growth in the use of hydrogen sulphide, in base metal processing as well as in the production of heavy water for nuclear power generation, Thio-Pet should show continued improvement.

Our other wholly-owned subsidiary, Empire Management Limited also turned the profit corner in 1968 recording a net profit of \$10,821 as against a loss of \$27,693 in 1967. This company manages Natural Resources Growth Fund Ltd., an open end mutual fund the total asset value of which, at \$15,631,705, and the net asset value per share, at \$8.94, were both at all time highs as of December 31, 1968. The future growth potential of this company is also encouraging.

In February, 1968 Cygnus became a substantial shareholder of Community Antenna Television Limited, a company organized by local Calgary interests to provide cable television service to the City of Calgary. Community Antenna Television believes that the Canadian Radio Television Commission will consider the various applicants for the necessary authority to provide this service sometime in 1969. If this company is the successful applicant it would begin operations in 1970.

Present indications are that the current year will be a most active one for your Company, with the greatest interest centering on developments in Alaska.

On behalf of the Board of Directors,



R. A. BROWN, JR.

Chairman and President

STATEMENT OF SOURCE AND USE OF FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1968

	<u>1968</u>	<u>1967</u>
		(Note 2)
FUNDS WERE OBTAINED FROM		
Operations		
Net earnings	\$ 429,825	\$ 360,038
Charges (credits) to earnings not requiring funds		
Subsidiary companies' (earnings) loss	(74,216)	45,363
Amortization of share issue and organization expense	39,930	39,935
	<u>395,539</u>	<u>445,336</u>
Proceeds from sale of capital stock	21,000	-
	<u>\$ 416,539</u>	<u>\$ 445,336</u>
FUNDS WERE USED FOR		
Investments - Home Oil Company Limited		
- Atlantic Richfield Company	\$ 639,010	\$ 82,762
- Community Antenna Television Limited	5,639,184	-
	<u>80,000</u>	<u>-</u>
Advances to subsidiary companies	169,938	263,128
Redemption of 5½% preferred shares (Note 4)	30,538	60,084
Dividends - 5½% preferred shares	130,052	135,706
- Class A shares	88,955	88,854
	<u>6,777,677</u>	<u>630,534</u>
DECREASE IN WORKING CAPITAL	<u>6,361,138</u>	<u>185,198</u>
	<u>\$ 416,539</u>	<u>\$ 445,336</u>

ASSETS

	<u>1968</u>	<u>1967</u> (Note 2)
CURRENT ASSETS		
Cash	\$ 265,706	\$ 6,662
Dividends receivable	326,535	318,261
	<u>592,241</u>	<u>324,923</u>
INVESTMENTS (Note 1)		
Home Oil Company Limited	14,879,059	14,240,049
Atlantic Richfield Company	5,639,184	-
Other	80,000	-
	<u>20,598,243</u>	<u>14,240,049</u>
INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED SUBSIDIARIES (Note 2)	<u>2,105,198</u>	<u>1,861,044</u>
OTHER ASSETS (Note 3)		
Commission and expense on issuance of preferred shares	12,187	41,720
Incorporation and organization expense	5,198	15,595
	<u>17,385</u>	<u>57,315</u>

Approved on behalf of the Board:

D.A. Brown Jr., Director

Robert W. Campbell, Director

<u>\$23,313,067</u>	<u>\$16,483,331</u>
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AT DECEMBER 31, 1968

LIABILITIES

CURRENT LIABILITIES

	1968	1967
		(Note 2)
Bank indebtedness (secured by investments)	\$ 6,693,188	\$ 50,000
Accounts payable	11,219	22,765
Dividend payable	30,364	33,550
	6,734,771	106,315

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4)

Authorized

375,000 Preferred shares of the par value of \$20 each, issuable in series

4,000,000 Class A shares of no par value

4,000,000 Class B shares of no par value

Issued

106,790 5½% Cumulative redeemable convertible preferred shares (1967 - 121,975)	2,135,800	2,439,500
943,129 Class A shares (1967 - 888,789)	3,604,552	3,332,852
2,609,374 Class B shares (1967 - 2,606,374)	9,764,565	9,743,565
	15,504,917	15,515,917

SURPLUS

Capital surplus (Note 4)	92,500	60,500
Retained earnings	980,879	800,599
	16,578,296	16,377,016
	\$23,313,067	\$16,483,331

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967 (Note 2)
REVENUE		
Dividends	\$ 516,888	\$ 489,633
Interest	<u>11,952</u>	<u>21,335</u>
	<u>528,840</u>	<u>510,968</u>
EXPENSE		
General and administrative (Note 7)	51,606	65,632
Interest	<u>81,695</u>	—
Amortization of share issue and organization expense (Note 3)	<u>39,930</u>	<u>39,935</u>
	<u>173,231</u>	<u>105,567</u>
Net earnings before subsidiary companies' earnings	355,609	405,401
Subsidiary companies' earnings (loss) (Note 2) ..	<u>74,216</u>	<u>(45,363)</u>
NET EARNINGS (Note 5)	<u>\$ 429,825</u>	<u>\$ 360,038</u>

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967 (Note 2)
BALANCE at beginning of year	\$ 800,599	\$ 672,065
Retroactive adjustment in respect of prior year's deferred income taxes of an unconsolidated subsidiary (Note 2)	—	53,140
Net earnings	429,825	360,038
	<hr/> 1,230,424	<hr/> 1,085,243
Dividends declared		
Preferred shares	130,052	135,706
Class A shares	88,955	88,854
Appropriation of retained earnings on purchase for cancellation of preferred shares	30,538	60,084
	<hr/> 249,545	<hr/> 284,644
BALANCE AT END OF YEAR	\$ 980,879	\$ 800,599

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1968

NOTE 1 INVESTMENTS

Details of investments are as follows:

	Number of Shares	Cost	Quoted Market Value
Home Oil Company Limited			
Class B shares	1,000,000	\$14,879,059	\$42,625,000
Atlantic Richfield Company ..	50,000	5,639,184	6,330,000
Community Antenna Television Limited	40,000	80,000	-

**NOTE 2 INVESTMENT IN AND ADVANCES TO WHOLLY-OWNED
SUBSIDIARIES**

The financial statements include full provision for the aggregate losses of the company's wholly-owned subsidiaries, Thio-Pet Chemicals Ltd. and Empire Management Limited from dates of acquisition.

Consolidated financial statements were not prepared because of the dissimilarity of the operations of the company and its subsidiaries.

Investments in and advances to wholly-owned subsidiaries consist of:

Shares, at cost	\$ 88,445
Advances	2,121,011
	2,209,456
Losses from date of acquisition	(104,258)
	<u>\$2,105,198</u>

During the year ended December 31, 1968, the company's wholly-owned subsidiaries retroactively changed to an accounting policy of providing for deferred income taxes. This retroactive change has been reflected in the accounts of the company by a credit to retained earnings. The 1967 comparative financial statements have been restated to reflect the foregoing change in accounting policy.

NOTE 3 OTHER ASSETS

The commission and other expenses incurred on the sale of preferred shares together with incorporation and organization expenses are being amortized over a five year period ending July, 1969.

NOTE 4 CAPITAL STOCK

(a) 5½% Cumulative Redeemable Convertible Preferred Shares

The 5½% Cumulative Redeemable Convertible Preferred Shares are convertible on or before December 29, 1972 into Class A shares of the company on the basis of four Class A shares for each preferred share. The preferred shares are redeemable at \$21 per share.

During the year, 13,585 preferred shares were converted by the holders thereof into 54,340 Class A shares and a further 1,600 shares were purchased by the company for cancellation at a cost of \$30,538.

In accordance with Section 61 of the Canada Corporations Act, the surplus resulting from the purchase for cancellation of the preferred shares has been designated as capital surplus.

(b) Dividends – Class A and Class B shares

The holders of Class A shares are entitled to cumulative dividends of 10 cents per share per annum payable on July 1. After payment of these dividends, the company may pay dividends up to 10 cents per share per annum to the Class B shareholders. Dividends in excess of the foregoing, in any year, are payable equally on Class A and Class B shares.

(c) Share Options

A total of 150,000 Class B shares were reserved for issuance to employees of the company and its subsidiary and affiliated companies under the terms of an Incentive Share Option Plan. Options have been granted to such persons to purchase 97,000 shares (of which 76,000 were granted to officers and directors of the company) at the price of \$7 per share exercisable up to December 22, 1976. Options on 3,000 shares were exercised during the year ended December 31, 1968.

NOTE 5 INCOME TAXES

The company has paid no income taxes as its revenue consists mainly of dividends from a taxable Canadian corporation; such dividends are excluded from taxable income.

NOTE 6 COMMITMENTS

The company may be obligated to guarantee or otherwise provide up to a maximum of \$2,187,500 in respect of the estimated debt requirement of Community Antenna Television Limited.

NOTE 7 EXECUTIVE REMUNERATION

Directors' fees in the amount of \$8,400 have been charged against earnings for the year.

AUDITORS' REPORT

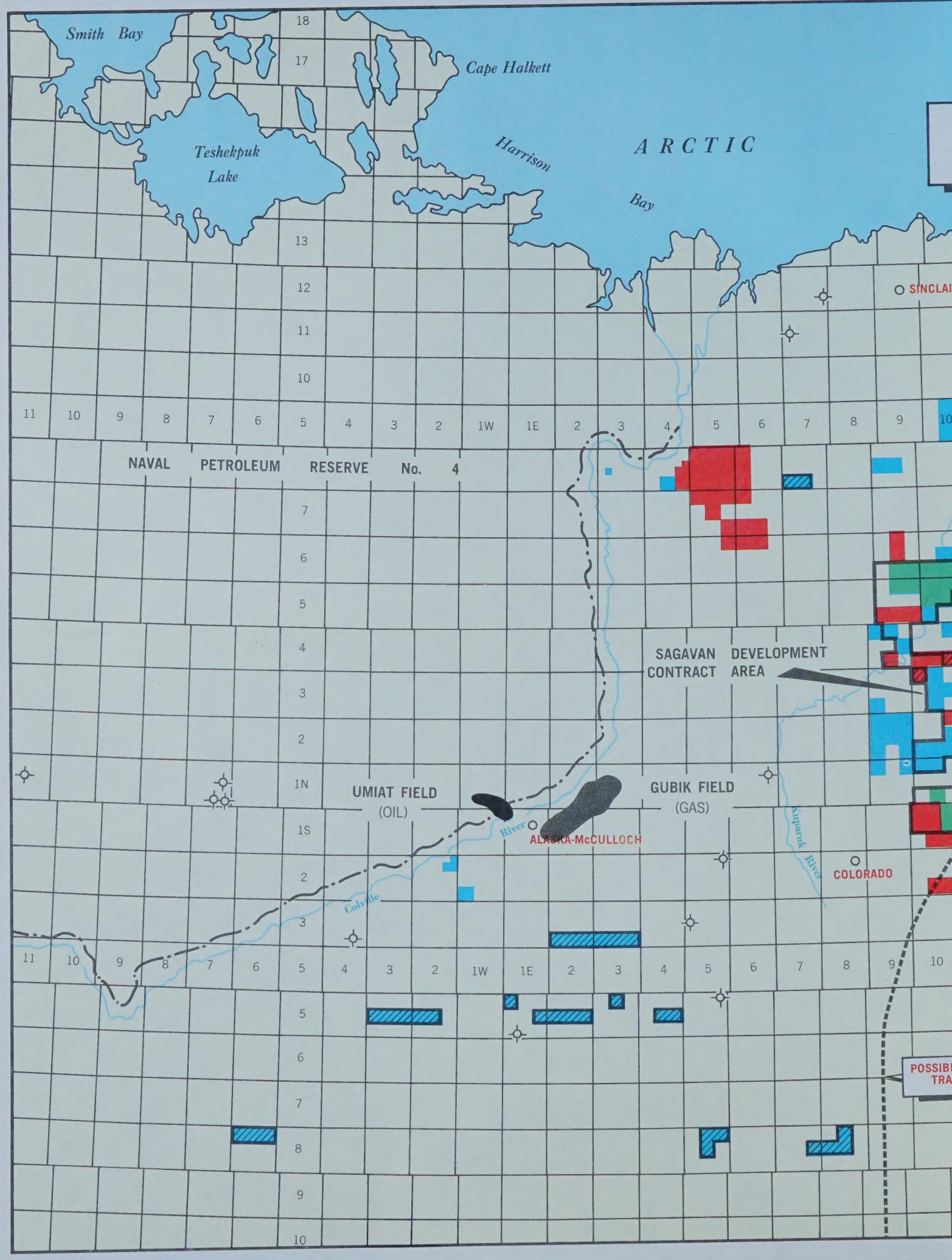
TO THE SHAREHOLDERS CYGNUS CORPORATION LIMITED

We have examined the balance sheet of Cygnus Corporation Limited as at December 31, 1968 and the statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

Calgary, Alberta
January 31, 1969.



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CYANUS CORP LTD
- Part of 1968 AR

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ATLANTIC-HUMBLE DISCOVERY WELLS

